
3 MARKET CONDITIONS

[Report to be provided under separate cover.]

4 RETAIL ENVIRONMENT

This section of the plan provides a summary of the planning team's analysis of the retail environment along H Street. The text offers an assessment of conditions, an overview of market forces affecting retailers, and a review of existing retail offerings.

4.1 Overview of Issues

Counting only Hechinger Mall and Union Station, every resident of the H Street neighborhood currently has a half-million square feet of retail available within a mile. However, even within this zone, the community feels the absence of basic goods and services, as well as a common, everyday point of interaction between neighbors.

The H Street Consumer Survey, conducted in summer 2002, demonstrates the lack of services provided in the area. Eighty-one percent of those surveyed make their grocery purchases either elsewhere in DC or outside the District. Seventy-five percent do their basic convenience shopping away from H Street. Ninety-five percent of all home items are bought either elsewhere in DC or outside the District, while approximately eighty-five percent of all clothing purchases are made outside the area. Restaurants outside the H-Street district capture eighty-nine percent of H Street neighborhood residents' business. Other retail categories show similar deficiencies along H Street.

It is both socially and economically sound to suggest that neighborhood goods and services should be provided on H

Street, their Main Street. A retail solution should be planned and directed in a manner that fosters thriving businesses and bustling sidewalks.

4.2 Market Context

Retail Trade Area

Retail trade areas are determined by evaluating the approximate neighborhood-based customer limits that surround a potential location. With this information, a calculation of a target market for local-serving retailers can be estimated. The assessment of a trade area for H Street is based on four distinct factors:

- the distances urban customers are willing to travel;
- the methods of travel that urban customers are willing to use;
- the existing and established retail competition that surrounds the potential retail area; and
- physical and psychological barriers (i.e. major avenues and streets, parks, etc.) that surround a potential retail area.

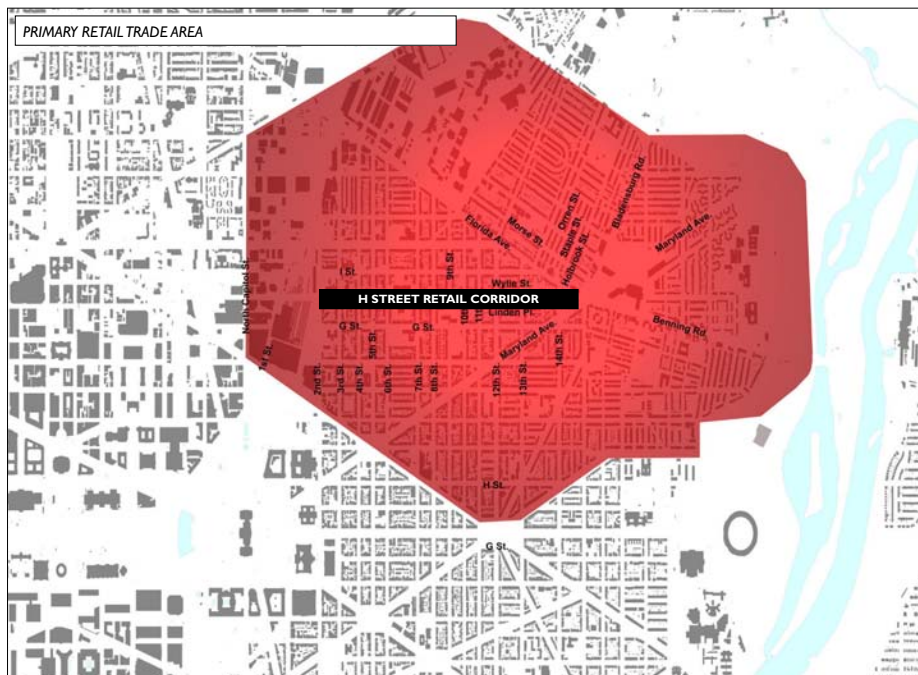
Within a dense area like Washington, DC, the distance that urban customers are willing to travel is often measured in blocks, rather than miles. For retail areas that expect daily traffic from the surrounding neighborhood, eight to twelve blocks is a reasonable distance to extend a trade area boundary.

The methods of customer travel to an urban area can expand the trade area a great deal. For example, retail space next to a busy Metro stop can increase its customer base exponentially. Along H Street, the potential customer draw is enhanced by the well-established and frequently-used bus stops.

As for future transit opportunities, we are very optimistic that if H Street gets on its feet and becomes a vital neighborhood retail district, the introduction of the light rail line could be extremely beneficial for this corridor, especially adding to the potential customer base at rail stops. However, as enhanced the light rail is in its early stages of development, and unlikely to be completed within the next five years, we are not projecting for its retail demand. If the light rail system becomes more defined as new H Street development projects are brought online, revisions to this section of the report should be considered. We do not want to create retail projects that are dependent upon an undefined light rail line to succeed.

Competitive Supply

Throughout Washington, DC and the metropolitan area, there are many neighborhoods with a specialty retail component. Within the District, Adams Morgan supports a recognized variety of ethnic restaurants and nightclubs. Georgetown's identity is tied to luxury merchandise, fashion, boutique gifts and restaurants. Friendship Heights' brand is



created by high-end fashion and jewelry, as well as urban big box retail. Each of these neighborhoods occupy a unique place in the city's retail market, but none of them serve as direct competition to H Street's shops and restaurants...yet.

Retail neighborhoods evolve. Three of the best local examples of this evolution in progress are the U Street Corridor; Downtown's F and 7th District and Columbia Heights. After years of planning, identity creation, and redevelopment, these three neighborhoods are reaching the midpoint of their retail maturity. In the next few years, they will compete in the same retail marketplace as Georgetown, Friendship Heights, Old Town, Bethesda Row, and Dupont Circle.

H Street must first get back on its feet. Before the late 1950s or early 1960s, H Street was the second or third highest grossing retail district in the city. Now, the initial



step will be most reasonably achieved with recreating a neighborhood goods and services retail district. The competitive supply for concentrated neighborhood goods and services type is evaluated by identifying and investigating existing, established retail districts adjacent to H Street.

The existing and established competition adjacent to H Street has a definite impact on its retail potential. The retail centers or districts that serve a concentrated base of customers near H Street are the East End/Chinatown, Pennsylvania Avenue/Eastern Market/Eighth Street, Hechinger Mall, and Union Station.

- The East End/Chinatown. Until just recently, the retail offerings of this area were geared almost exclusively to tourists and regional visitors attending the MCI Center, the theaters or one of the several museums in the area. Within the past two years, following the infusion of over

4,000 housing units, the East End/Chinatown is starting to supplement its strong restaurant presence with considerable neighborhood goods and services retailers. The most notable of these will be the grocery store and adjacent retail offered at Mount Vernon Walk (the former Wax Museum Site).

- Pennsylvania Avenue/Eastern Market/Eighth Street. This small, but growing, retail corridor receives its customer draw from the dense surrounding Capitol Hill neighborhood with very attractive demographics and its Metro access. With a mix that primarily serves the Capitol Hill community, this collection of shops includes CVS, Kinkos, Bread and Chocolate, Ben and Jerry's, several hair salons and an eclectic mix of restaurants.
- Union Station. The offerings at Union Station pose one of the most dramatic impacts on H Street's retail potential. 'Union Station is a regional intermodal transportation hub providing access to Metro, Amtrak, and Marc trains

with a combined daily ridership of 101,102 passengers in addition to Metrobus, taxi, and automobile commuters' (DC Marketing Center's 'North Capitol: NOMA' marketing piece). With numerous food outlets, including the food court and seven sit-down restaurants, as well as fashion and apparel, gift/boutique, and card shops, Union Station Mall is a viable alternative for many national and regional retailers who are looking for locations in Northeast DC. Perhaps more damaging, as few residents of the H Street neighborhood are interested in attracting national chains, is that these shops present direct competition to any local retailer who offers similar goods. For this reason, the ability for an H Street retail district to expand its customer draw is diminished by the close proximity of the established, clean, safe, managed, and Metro-accessible shops at Union Station.

- Hechinger Mall. Though geographically located along the H Street corridor, the Hechinger Mall site is physically and psychologically disconnected from H Street's neighborhood-scale retail. These two retail types (large format retail and neighborhood-scale retail) can very effectively coexist, if they work to compliment, rather than duplicate, one another. The Safeway, Modell's, Foot Locker, Blockbuster Video, Radio Shack, and National Wholesale Liquidators at Hechinger Mall provide retail needs for the H Street neighborhood and a customer base up to three miles away, thus greatly reducing the need for these types of retailers along H Street itself.

The physical and psychological barriers around the H Street retail district are primarily caused by major roadways. For a potential customer, crossing New York Avenue or Massachusetts Avenue for a shopping experience is cumbersome and unnecessary as more local options are available to the north and south of these boundaries, respectively. North Capitol Street and the Hopscotch Bridge currently present a similar edge to the west. To the east, the Anacostia River becomes a natural boundary.

Based on these four factors, the potential trade area boundaries have been estimated to extend from New York Avenue and Mount Olivet Road to the north, North Capitol Street to the west, Massachusetts and North Carolina Avenues to the south and the Anacostia River to the east.

Demand Summary

For the purposes of this report, we are estimating retail market demand from now to five years from the inception of this study. We strongly encourage a reassessment in five

years. This period of time is considered an industry standard for retail market analysis in a main street condition because it is the typical length of a retailer's lease.

Within the identified trade area for the H Street retail district, the demographics reflect the following conditions:

- 33,652 people with decreasing growth of approximately 500 people annually over the past twelve years;
- 14,408 households (22.5% of these are households with children; 40% one-person households);
- \$57,321 average median household income (54% increase over the last ten years);
- 23,055 daytime employees;
- 48% of residential units are owner-occupied; and
- 43% of residential units are renter-occupied.

The demographics of H Street illustrate a surrounding community that is changing, (yet with a stable base), middle income, ethnically diverse with almost a 50/50 split between Caucasians and African-Americans.

Based on the demographics of the trade area and the amount of competitive retail surrounding the neighborhood, the current total potential retail square footage generated by the needs of the trade area along H Street is between approximately 150,000 and 250,000 square feet.

4.3 Retail Audit

Today, H Street reflects a major city route on the brink of its next wave. The beginnings of two diverging paths are currently evident:

- a suburban-like series of pad sites and
- a traditional, neighborhood retail environment.

The choices made by the community, the City and private developers will help distinguish H Street's future direction.

AutoZone, H Street Storage, H Street Connection, and the BP Amoco site are influencing H Street toward suburban conditions. Perhaps two dozen successful shops and a stable residential neighborhood are factors that make capturing H Street as the center for community goods and services a possibility.

The first focus of a Retail Audit for H Street is on each of the various types of retail by merchandizing or services category (for example: neighborhood services – salon; restaurant – fast food; fashion and apparel; books, records

and magazines; etc.) and determine what is currently successful here.

Today there are approximately 25 salons, 17 discount fashion stores, 15 take out food establishments, 9 grocery/convenience stores, 7 dry cleaners/laundromats, 6 discount stores, 4 banking institutions, 4 liquor stores, 3 jewelry stores, 2 auto parts stores, 2 hardware/plumbing stores, 2 drug stores, 1 appliance store, 1 record store, and 1 furnishing store.

The Retail Audit is conducted using two primary tools: site visits and evaluations at a variety of times of the day and the week, and owner/manager interviews. The analysis is influenced by the following factors:

- How is the retailer performing, based on annual sales/profits or owner/manager understanding of current profitability versus previous years?
- How well does the owner/manager understand his/her customer base? How well does he/she cater to this customer base?
- How well is the merchandise/shop presented and maintained?
- How well is the storefront maintained and presented to attract potential customers?
- How well do the store's operating procedures (hours, payment options, appointment policy, etc.) meet the needs of its potential customer base?

Using these questions as a guideline, the H Street Main Street group should seriously consider continuing this auditing.

Although retail establishments along H Street were evaluated individually, the results of the Retail Audit are reported by merchandizing or services category. All retailer types were examined; however, the focus of our retail audit was on the four dominant retail types on H Street. This is because these retailers indicate an organic, or unaltered market demand and are the best indicators of what retail types will naturally flourish here.

In retail development, shops and locations are frequently graded on an A, B, C scale. For the purposes of the Retail Audit, we identified four types of retail along H Street that were rewarded passing grades, indicating the level of their potential to thrive in an improved retail district. Identifying these business types in an area preparing to undergo



revitalization is important, as we do not want to plan around business types and establishments that would flounder for other reasons than a difficult street environment.

Retail Grade Criteria

Grade	Criteria
A	Profitable Sophisticated ownership/management Demonstrated financial know-how Employing a marketing strategy Knowledgeable of customer base
B	Profitable Knowledgeable of customer base Could prosper – with assistance
C	Little profitability Lacks basic information regarding business operations Does not understand customer base or their needs

Note: With regard to these categories, we have determined shades of positive and negative with each grade (hence B+).

H Street Retail Establishments: Grade A

The following categories of retailers have been placed in the Grade A category of retailers, generally based on preliminary estimates of their profitability, their marketing strategies, their advanced understanding of the financial issues impacting their establishment, their ability to clearly identify their customer; and their ability to meet the needs of that customer and adapt as these needs change.

Neighborhood Services – Salons. (Approximately 25 salons on H Street, 20% performing at Grade A). There are numerous salons on H Street. Although for many residents, this condition is a source of frustration, it is also an indication of the health of this services category along this corridor. While a few of the salons are running marginally successful businesses based on low rents and low expectations of profitability, many of these establishments are brimming with potential, have a steady base of customers from the neighborhood and elsewhere, and have a heightened level of understanding about their clients and how to serve them. They are negatively impacted by surrounding business types that do not demonstrate this level of sophistication.

Moderately-Priced Fashion. (Approximately 17 moderately-priced fashion stores on H Street, 35% performing at Grade A). Similar to the beauty and hair salons, some of the fashion merchants have the ingredients for successful businesses, while others appear to be surviving on small profit margins or, quite simply, tradition. Many of H Street's fashion merchants offer unique merchandise, a good sense of their customer; appealing presentation, and reasonable prices. Like the salons, they do not benefit from any clustering that might allow them to establish a retail identity as part of an H Street retail district.

H Street Retail Establishments: Grade B+

A grade of B+ was suggested for the following categories of retailers based on their ability to identify and capture a retail need along H Street. Although many of these establishments lacked the business skills found in the Grade A category, these retailers were offering goods and services that allowed them to do well regardless.

Pharmacy/Convenience Stores. (Approximately 8 pharmacy/convenience stores on H Street, 40% performing at Grade



GRADE B+ RETAILERS



B+). H Street's daily errand, produce, and toiletries stores, in addition to the 10,000 square foot Rite Aid provide for a portion of the neighborhood's existing retail needs. These merchants are clearly serving a neighborhood need; however, their merchandizing and presentation keep their customer base quite small, as new customers remain unaware or skeptical about patronizing the establishment.

Take Out Food. (Approximately 15 take-out food restaurants on H Street, 35% performing at Grade B+). Appearances aside, take out food is a legitimate retail type along H Street, partially fueled by heavy volumes of traffic generated by the bus stops. The unique, local characteristics of this type of retailer would make a legitimate contribution to a revitalized H Street. Observation times include weekday late mornings, weekday mid-afternoons, and

Saturday afternoons. Take out food was perhaps the only retail type that was doing at least some sort of business at each of these times. Many of these establishments could use some improvement, but they are clearly fulfilling a need, most likely accentuated by the bus stops.

Retailer Challenges

In addition to assessing existing conditions, the Retail Audit records challenges to the improvement or expansion of the retail district. Many of the retailers in the H Street corridor understand the importance of a 'clean, safe, convenient and comfortable' environment to attract customers. In order of frequency, shop owners/managers cited:

- poor lighting;
- the perception/reality of neighborhood crime;

- loitering;
- a deficiency of parking; and
- lack of concentrated retail activity/vacant buildings.

These are reasonable concerns that unquestionably impact retail potential along H Street